

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County of Placer's comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2002. It should be read in conjunction with the transmittal letter, which can be found on pages i-v of this report, and the County's financial statements following this section.

FINANCIAL HIGHLIGHTS (amounts in thousands)

- The assets of the County exceeded liabilities at the close FY 2001-02 by \$490,904 (*net assets*). Of the net assets amount, \$170,588 in *unrestricted net assets* is available to meet ongoing obligations to citizens and creditors, \$87,901 in *restricted net assets* must be used only for specific purposes and \$232,415 is *invested in capital assets, net of related debt*.
- The County's total net assets increased by \$94,585. The increase is mainly due to the securitization of tobacco settlement revenue. The remainder of this growth is due to increases in property taxes, operating and capital grants and contributions, investment earnings and charges for services due to rate increases.
- As of June 30, 2002, the County governmental funds reported combined fund balances of \$241,715, an increase of \$75,339 in comparison with the prior year. Approximately 81.3 percent of the combined fund balances, or \$196,459 is available to meet the County's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, unreserved fund balance for the General Fund, the county's largest fund, was \$83,559 or 43.6 percent of total General Fund expenditures. However, this entire amount has been budgeted either for expenditure in FY 2002-03 or is reserved for future uses, although there is usually increased carryover fund balance each year from budget savings or revenues in excess of budget.
- The County's total long-term debt increased by \$5,202 in comparison with the prior year. New capital lease obligations accounted for \$1,593 of the increase. The balance relates to increases in estimates for compensated absences and self insurance liabilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis in this section are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) **Government-wide** financial statements, 2) **Fund** financial statements, and 3) **Notes** to the basic financial statements. **Required Supplementary Information** is included in addition to the basic financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of the County finances, using accounting methods similar to those of a private-sector business. These statements provide both long-term and short-term information about the County's overall financial status. The government-wide financial statements can be found on pages 13-15 of this report.

The *Statement of Net Assets* presents information on all the County's assets and liabilities as of the end of the fiscal year, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information on how net assets changed during the fiscal year, with revenues and expenses by major type or function. Revenues and expenses are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes, intergovernmental and program revenues (*governmental activities*) from other functions that are intended to recover most or all of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public assistance, health and sanitation, public ways and facilities, recreation and cultural services and education. The business-type activities of the County include community health clinics, facilities management, food services, public transit and waste disposal.

Blended component units are included in the County's basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. Examples are the Redevelopment Agency of Placer County, the North Lake Tahoe Public Financing Authority and numerous County Service Areas and Special Districts governed by the Board of Supervisors. The Placer County Children and Families Commission is reported as a discretely presented component unit because the governing body is not substantially the same as the County Board of Supervisors. For further information concerning the Redevelopment Agency of Placer County and the Placer County Children and Families Commission, refer to the separately issued financial statements, which are available from the Office of the Auditor-Controller upon request.

Fund financial statements are the more familiar groupings of related accounts that are used to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state or federal law or by debt covenants. All of the County's funds can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on the shorter-termed financial resources, such as cash, that (1) have been spent on governmental programs during the fiscal year and (2) that will be available for financing such programs in the near future. The governmental funds financial statements are presented by major fund and for nonmajor funds in the aggregate on pages 17-19 of this report.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 22 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Public Safety Fund, Public Ways and Facilities Fund and Capital Projects Securitization Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for these nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

Proprietary funds are of two types: enterprise funds and internal service funds. These funds provide services that are usually supported in total or major part by customer fees and charges. The proprietary funds financial statements can be found on pages 21-25 of this report.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As noted previously, the County uses enterprise funds to account for Transit, Facilities, Health and Human Services, County Service Areas and Sewer Maintenance Districts.

Internal service funds are an accounting device used to accumulate and allocate costs for services to the County's various functions. The County uses internal service funds to account for its telecommunications operations, workers' compensation and risk management, employee dental and vision and unemployment insurance programs, fleet services operations and maintenance, special district's administration and operations, correction's food services and countywide technology development and maintenance. Because these services predominantly benefit governmental rather than business-type functions, they have been included primarily within *governmental activities* in the government-wide financial statements, except for special districts administration and operations, which primarily benefit the county service areas, sewer maintenance districts and waste disposal operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. All of the County's enterprise funds, including the Transit, Facilities, Health and Human Services, County Service Areas and Sewer Maintenance Districts funds are considered to be major enterprise funds. The County's three internal service funds are also combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds are provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds, except for agency funds, which have more limited accounting and financial statements because of their purely custodial character. The fiduciary fund financial statements can be found on pages 26-27 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 28-57 of this report.

Required Supplementary Information is presented concerning budgetary comparison schedules for the General Fund and major Special Revenue Funds, as well as the schedules of funding progress. Required supplementary information can be found on pages 60-64 of this report.

Immediately following the required supplementary information, the combining and individual fund statements and schedules referred to earlier provide information for nonmajor governmental funds and internal service funds. The combining and individual fund statements and schedules can be found on pages 65-95 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This year is the first period the County applied Governmental Accounting Standards Board (GASB) Statement No. 34. The County has not restated prior periods for purposes of providing the comparative data for the Management's Discussion and Analysis (MD&A) because certain prior year information is unavailable. However, in future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

County of Placer's Net Assets
June 30, 2002
(in thousands)

	Governmental Activities	Business- type Activities	Total
Assets:			
Current and other assets	\$ 296,150	\$ 30,413	\$ 326,563
Capital assets	183,271	81,410	264,681
Total assets	<u>479,421</u>	<u>111,823</u>	<u>591,244</u>
Liabilities:			
Current and other liabilities	26,213	2,709	28,922
Noncurrent liabilities	61,450	9,968	71,418
Total liabilities	<u>87,663</u>	<u>12,677</u>	<u>100,340</u>
Net assets:			
Invested in capital assets, net of related debt	155,054	77,361	232,415
Restricted	87,901	-	87,901
Unrestricted	148,803	21,785	170,588
Total net assets	<u>\$ 391,758</u>	<u>\$ 99,146</u>	<u>\$ 490,904</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, net assets (assets in excess of liabilities) were \$490,904 at June 30, 2002, the close of the County's fiscal year.

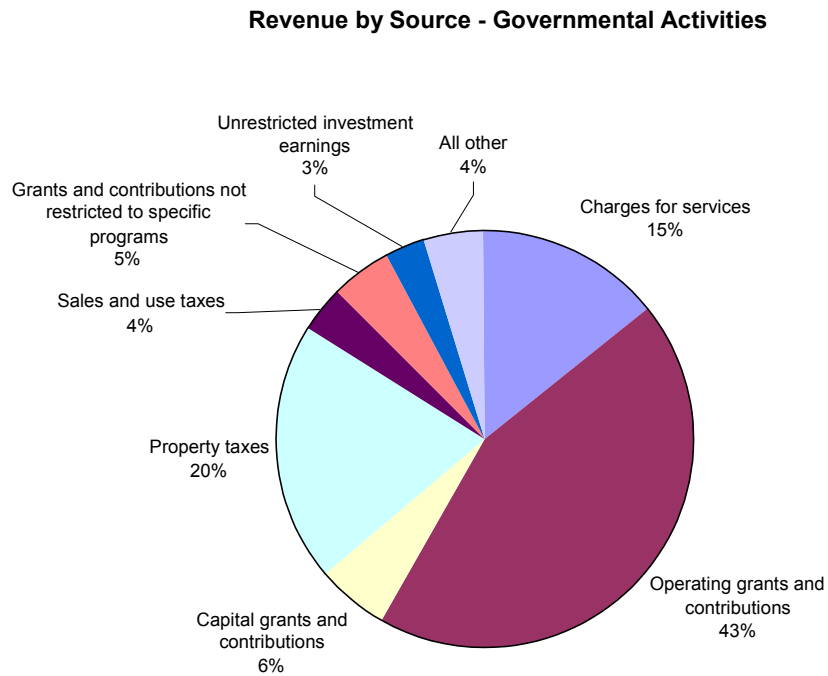
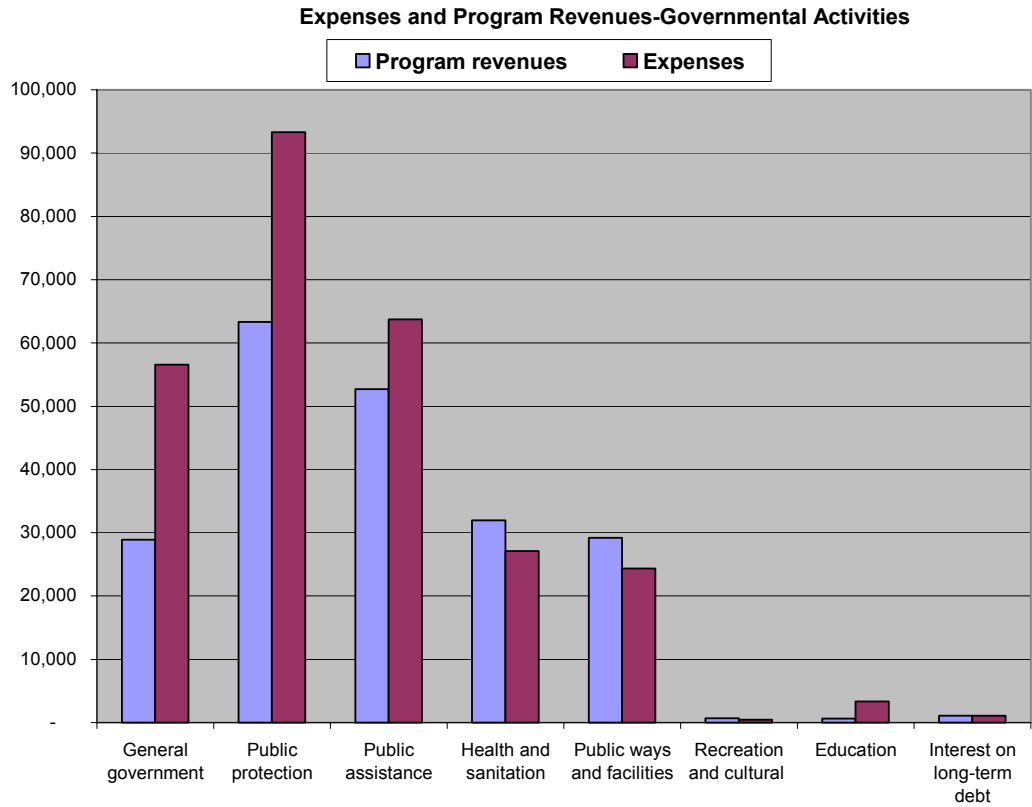
The largest portion of the County's net assets of \$232,415 (47.0 percent) reflects its investment in *capital assets* (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, such as tax revenues, since the capital assets themselves cannot be used to liquidate these liabilities. Another significant portion of the County's net assets (35.0 percent) represents *unrestricted net assets* of \$170,588, which may be used to meet the County's ongoing obligations to citizens and creditors. The remaining balance of the County's net assets of \$87,901 (18.0 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental and business-type activities.

**County of Placer's Changes in Net Assets
For the Fiscal Year Ended June 30, 2002
(in thousands)**

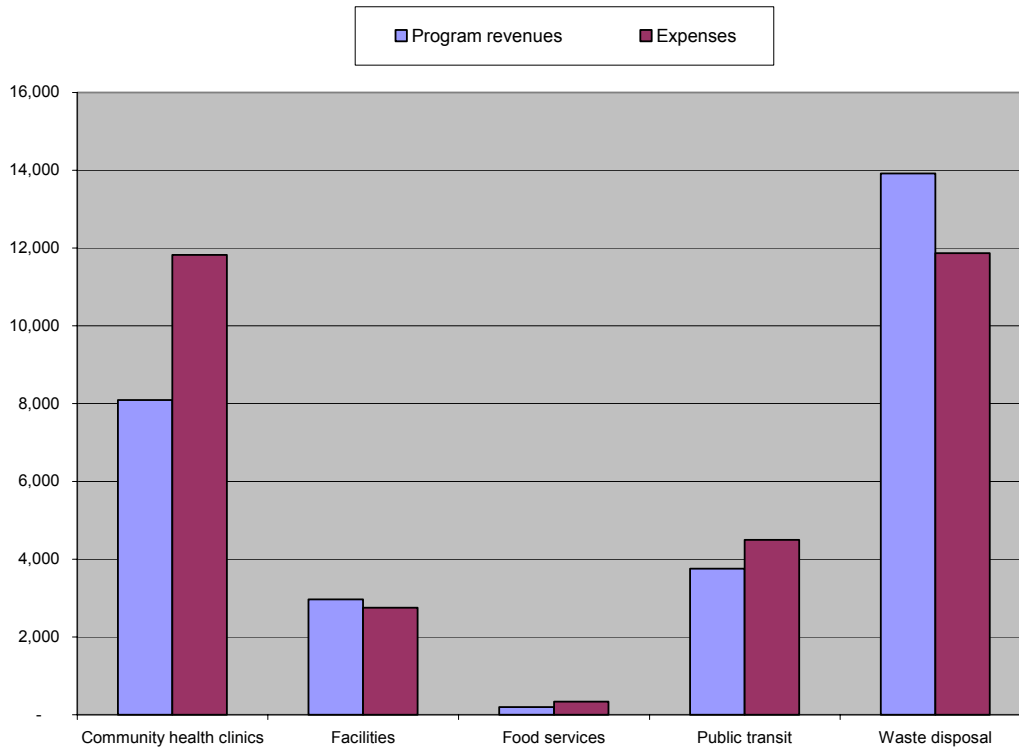
	Governmental Activities	Business-type Activities	Total
<u>Revenues</u>			
Program Revenues:			
Charges for services	\$ 46,936	\$ 16,830	\$ 63,766
Operating grants and contributions	141,972	9,120	151,092
Capital grants and contributions	18,542	2,973	21,515
General Revenues:			
Property taxes	66,060	69	66,129
Sales and use taxes	11,864	2,957	14,821
Transient occupancy taxes	7,143	-	7,143
Real property transfer tax	3,170	-	3,170
Other taxes	110	-	110
Tobacco settlement	3,002	-	3,002
Grants and contributions not restricted to specific programs	16,050	-	16,050
Unrestricted investment earnings	9,940	1,231	11,171
Miscellaneous	2,957	-	2,957
Total revenues	<u>327,746</u>	<u>33,180</u>	<u>360,926</u>
Expenses:			
General government	53,087	-	53,087
Public protection	93,329	-	93,329
Public assistance	63,732	-	63,732
Health and sanitation	27,137	-	27,137
Public ways and facilities	27,490	-	27,490
Recreation and cultural services	436	-	436
Education	3,373	-	3,373
Interest on long-term debt	1,939	-	1,939
Community health clinics	-	11,858	11,858
Facilities	-	2,755	2,755
Food services	-	336	336
Public transit	-	4,493	4,493
Waste disposal	-	11,868	11,868
Total expenses	<u>270,523</u>	<u>31,310</u>	<u>301,833</u>
Increase in net assets before special item and transfers	57,223	1,870	59,093
Special item	35,492	-	35,492
Transfers	(2,535)	2,535	-
Change in net assets	90,180	4,405	94,585
Net assets, beginning of year	301,578	94,741	396,319
Net asset, end of year	<u>\$ 391,758</u>	<u>\$ 99,146</u>	<u>\$ 490,904</u>

Governmental activities increased the County's net assets by \$90,180 thereby accounting for most of the increase in net assets of the County. The increase is mainly due to the securitization of tobacco settlement revenue. The remainder of this growth is due to increases in property taxes, operating and capital grants and contributions, investment earnings and charges for services due to rate increases.

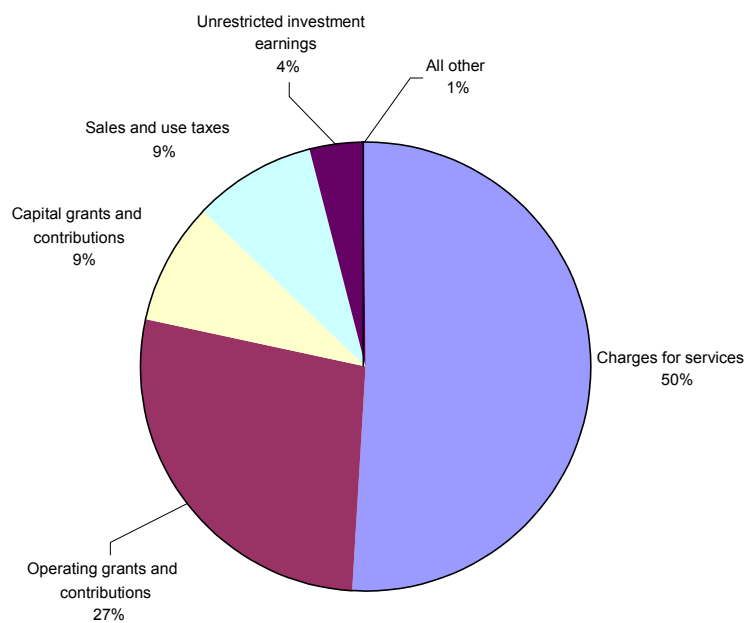


Business-type activities increased the County's net assets by \$4,405. The key factor that contributed to this increase was increased grants.

Expenses and Program Revenues-Business-type Activities



Revenues by Source-Business-type Activities



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The County's general government functions are contained in the General, Special Revenue, Debt Service, Capital Projects Funds and Permanent Fund. Also included in these funds are the special districts governed by the Board of Supervisors. As noted previously, the focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's more immediate financing requirements.

In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At June 30, 2002, the County's governmental funds reported combined fund balances of \$241,715, an increase of \$75,339 in comparison with the prior year. Approximately 81.3 percent of the combined fund balances, or \$196,459, constitutes unreserved fund balance, which is available to meet the County's current and future needs. The remainder of fund balance is reserved indicating that it is not available for new spending because it has been committed: 1) to pay debt service; 2) to reflect inventories and the amount due from other funds that are long-term in nature and thus do not represent available spendable resources; 3) to liquidate contractual commitments of the period; and 4) a general reserve established per County policy.

The General Fund is the chief operating fund of the County. At June 30, 2002, unreserved fund balance of the General Fund was \$83,559, while total fund balance reached \$98,099. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represented 43.6 percent of total fund expenditures, while total fund balance represented 51.2 percent of that same amount. The County General Fund's fund balance increased by \$20,320 during the current fiscal year. The key factors in this growth were increased property tax revenue of \$7,800 and increased state and federal aid. The remaining major funds and other governmental funds' balances increased by \$55,019 to \$143,616. Most of this increase was related to tobacco securitization revenues.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the enterprise funds increased 5%, or \$4,614 to \$97,830. Most of this increase came from increased operating revenues. The internal service funds net assets decreased by \$2,234 to \$17,850. Most of this decrease came from increased claims payments.

GENERAL AND OTHER OPERATING FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget for the fiscal year ended June 30, 2002 resulted in a \$16,480 increase in appropriations and can be briefly summarized as follows:

- \$960 in miscellaneous increases in general government activities
- \$1,997 in increases allocated to public protection
- \$3,041 in increases allocated to public assistance
- \$9,412 in increases allocated to health and sanitation
- \$1,070 in increases allocated to three functional areas

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounted to \$264,680 (net of accumulated depreciation). This investment in capital assets includes land and easements, infrastructure, structures and improvements, equipment and construction in progress. The total increase in the County's investment in capital assets for the current period was 5.2 percent or approximately \$22 million.

Major capital asset events during the current fiscal year included the following:

- \$2,102 increase to land and easements
- \$7,143 increase to infrastructure
- \$13,517 increase to construction in progress

Long-term debt

At June 30, 2002, the County had total long-term debt outstanding of \$71,418. This amount is comprised of \$26,205 of certificates of participation, \$15,567 of compensated absences, \$3,111 of sewer and water and lease revenue bonds, \$18,522 of self insurance liability, \$5,063 of landfill postclosure liability and \$2,949 of capital leases payable. During the year, retirement of debt amounted to \$1,237. Additions included \$1,593 for new capital leases, \$1,369 for compensated absences, and \$3,356 for self insurance liability.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Auditor-Controller, 2970 Richardson Drive, Auburn, CA 95603.